Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of

Access Charge Reform	)	CC Docket No. 96-262
Price Cap Performance Review for Local Exchange Carriers	)	CC Docket No. 94-1
Low Volume Long Distance Users	)	CC Docket No. 99-249
Federal State Joint Board on Universal Service	)	CC Docket No. 96-45

REPLY COMMENTS OF THE IOWA UTILITIES BOARD

The Iowa Utilities Board (IUB) respectfully submits to the Federal Communications Commission (FCC) reply comments on the Coalition for Affordable Local and Long Distance Service (CALLS) Plan. These comments respond to a Notice of Proposed Rulemaking issued by the FCC on September 15, 1999.

I. INTRODUCTION and SUMMARY

The CALLS proposal is a negotiated agreement among AT&T, Bell Atlantic, Bell South, GTE, Sprint, and SBC. The CALLS members offer the plan as a unified proposal that the FCC should either adopt without modification or reject.[1] The plan is a five-year proposal that would apply to those carriers who voluntarily participate.

The proposal has three major components. The first component is the restructuring of common line revenue recovery. The rate elements, Subscriber Line Charge (SLC), Presubscribed Interexchange Carrier Charge (PICC) and the Carrier Common Line Charge (CCLC) would be merged into a single SLC, not to exceed $7.00.

[1] NPRM, Appendix A, (p.1)

The second component is the establishment of a $650 million explicit universal service fund (USF) that would be portable to all eligible telecommunications carriers.

The third component establishes a target rate for traffic-sensitive switched access rates. All price cap reductions would be targeted to traffic-sensitive rates until these rates reach the targeted level.

While the IUB recognizes the need for access reform and commends the CALLS members for attempting to realign access charges in a manner consistent with economic principles and a competitive market, the IUB opposes the restructuring of rate elements without a comprehensive review of costs. The CALLS proposal accepts the current access revenue stream as justifiable and proceeds to guarantee the revenue stream through end-user charges and universal service funds. This is particularly grievous since the CALLS plan only applies to price cap local exchange companies (LECs) and allows companies the choice of participating.

The IUB is also concerned with a proposal that shifts traffic sensitive charges to a non-traffic sensitive end-user charge. While there is value in restructuring common line costs to a single end-user charge, the charge should include only common line costs and those costs should be based upon the forward-looking cost of providing service.

Finally the IUB is concerned with a proposal that sets the size of a universal service fund on the basis of a negotiated agreement. Accepting such a proposal is diametrically opposed to the FCC's current forward-looking cost methodology used to determine high cost USF.

If the CALLS proposal is a "take it or leave it" proposal the IUB recommends the FCC reject the proposal. The IUB urges the FCC to consider the CALLS proposed goals of restructuring and reducing access charges to their forward-looking economic cost. The FCC should seek to achieve those goals through policies that protect consumers from rates that are set to recover a revenue stream unrelated to the underlying cost of providing service and through policies that are consistent with established federal policies.

II. COMMON LINE RATE RESTRUCTURING

On a conceptual level, the Board supports a fundamental review of subscriber charges. In that review, however, the Board urges the Commission not to deviate from certain principles. The proposal, as it was put before the Commission, does not give full recognition to these important principles.

The foremost principle is that subscriber line charges should be moved toward cost in amount and type. The amount of the proposed charge should be aligned with a reasonable estimate of the forward-looking cost of a loop. Since the super-SLC will be a fixed monthly charge, the costs it reimburses should be costs of the same type, *i.e.*, only non-traffic-sensitive costs should be included. The proposal includes amounts and types of costs that do not meet this principle. Without alignment to reasonably accurate costs, in type and amount, the proposal should not be accepted.

If properly related to costs, there are distinct benefits to the consolidation of the SLC, PICC, and CCLC into a single rate element. Customers do not like the profusion of line items added to their bills. A single line charge would be better understood and accepted by customers. It would allow better comparison of competing service offerings, both local and long-distance. It would allow more meaningful regulatory evaluation and alignment with cost.

One of the most objectionable line charges to many customers is the small volume customer charges charged by some carriers. The Board is concerned that the proposed super-SLC would allow redundant recovery of some of the cost elements the small-volume charges are intended to recover. Small-volume charges are, by their nature, related to the fixed costs of maintaining service that cannot be covered by usage-based charges at low usage levels. These fixed costs should not be double-counted to support a low-volume customer charge and also a super-SLC.

Further consideration of the proposal should be coupled with elimination of small-volume customer charges.

III. UNIVERSAL SERVICE

The CALLS proposal would establish a $650 million USF to recover common line cost that would exceed the $7.00 SLC cap. Many of the commenting parties in this docket expressed concern over the size of the USF. Ohio[2] points out the fact that no financial support was filed with the proposal. California[3] expresses concern over the expansion of the fund to include recovery of implicit interstate subsidies and the burden of a large fund. On the other hand Washington's[4] comments express concerns that the fund is not calculated with adequate granularity and would be insufficient. In fact there is no way of judging whether $650 million will over or under compensate carriers for common line costs in excess of SLC revenues. At best the amount can be considered a revenue replacement for those revenues lost through interstate access rate reductions. The amount of subsidy would have no basis in the forward-looking cost of providing service, as has been established in the USF high cost proceeding. Making this arbitrary support portable to CLECs only exacerbates the problems since the amount of support is in no way related to their cost to provide service or an existing revenue stream.

Universal service should be supported but at no more or no less than the cost to provide basic service and the need for affordable rates in high cost areas.

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[2] Nov. 12 Comments of the Public Utilities Commission of Ohio (p.19)
[3] Nov. 12 Comments of the People of the State of California and the California Public Utilities Commission (p.15)
[4] Nov. 12 Comments of the Washington Utilities and Transportation Commission

The FCC should ensure that any USF support is based upon its previously established forward-looking cost principles.

IV. SWITCHED ACCESS RATES

The CALLS proposal would set a target rate of $.0055 per switched access minute for traffic-sensitive interstate access charges. The CALLS members have agreed to an approximately 50% reduction in the current switched access rates that has no basis in the cost to provide switched access service. This negotiated rate reduction would be achieved by an immediate transfer of 25% of the switched access revenues to the common line basket and by targeting price cap reductions to the traffic sensitive rates until the target is achieved.

MCI points out that with the proposed 6.5% productivity factor the large price cap LECs will reach the target rate by the 2001 annual access filing.[5] The IUB agrees with the concerns expressed by MCI that abandonment of the application of the X-factor will provide opportunity for over-earnings by the LECs in the remaining years of the proposal.

The IUB is also concerned that the common line basket would not receive price cap reductions. Transferring switched revenue recovery and raising the cap on the SLC to $7.00 increases the end-user charge and assures the LEC the recovery of those revenues. Foregoing application of the x-factor to these revenues avoids what would have been decreases in the revenue stream and lower end-user charges. Other than increasing LEC profitability, there seems to be no reason why end-users should not benefit from LEC productivity.

V. GENERAL CONCERNS

The IUB shares many of the concerns that prompted the parties to develop the CALLS plan. There is a need for cost-based access rates and a rate

[5] Nov. 12 comments MCI Worldcom (p.9)

design that is reflective of the traffic sensitive or non-traffic sensitive nature of the costs. Accepting the CALLS proposal would be a step away from these objectives. There is no assurance that the CALLS proposal moves rates closer to their forward-looking costs. The FCC in previous unbundled network elements and USF dockets has consistently espoused the use of forward-looking costs to send the proper signal to a competitive market. The CALLS proposal provides no costing methodology to support the restructured rates. Proper rate design would collect common line costs from common line elements and switching costs from switching elements. The CALLS proposal would recover switching costs from the common line rate elements. If switching rate elements do not recover the full cost of providing switching service it could be detrimental to competitors in the switched access market.

VI. CONCLUSION

For the foregoing reasons, the IUB urges the FCC to decline the take-it-or-leave-it proposal submitted by CALLS, but doing so with recognition that the proposal has advanced several beneficial concepts that could be reworked in a comprehensive review of access and subscriber line charges.

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